WEST COAST ROCK LOBSTER FISHERY

INVESTIGATION AND ECONOMIC ANALYSIS OF THE MINIMUM UNIT HOLDING REQUIREMENT

PUBLIC CONSULTATION DOCUMENT

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EXECUTIVE SUMMARY

The current 63 minimum unit holding rule has recently been examined in the context of a National Competition Policy (NCP) review conducted by the National Competition Council (NCC); the NCC recommended that the minimum unit holding rule be removed. The WA Government responded to the NCC indicating that the minimum unit holding would remain at 63 units until the end of 2006. A review of the minimum holding rule therefore needs to be undertaken in 2005 to provide the Minister with advice, so that any changes can be implemented prior to the NCC deadline of the end of 2006.

The Minister has requested that the Rock Lobster Industry Advisory Committee (RLIAC) provide him with advice on the issue, as a number of operators have indicated to the Department that they would like the opportunity to drop below the current 63 minimum unit holding and operate more diversified businesses.

Industry feedback from stakeholders at the coastal tour has been used to develop this industry consultation paper '*Investigation and Economic Analysis of the Minimum Unit Holding Requirement – public consultation document May 2005*'.

This investigation has shown that the current minimum unit holding requirement of 63 for zones A/B and Zone C of the West Coast Rock Lobster Fishery could be reduced (at a unit value of 0.82) to 57 units (47 pots) and 46 units (38 pots) respectively. The economic analysis shows that an operator using these reduced minimum unit holdings would still be able to maintain an economically viable operation (>$45,000 per annum) if a beach price of $18.50/kg or greater was achieved.

This paper also explores the possible impacts on current fleet dynamics and compliance costs / risks associated with reducing the current minimum unit holding.

RLIAC has provided you, the stakeholder, with three options for your consideration and comment. The options are:

1. **Maintain status quo (i.e., 63 minimum unit holding rule remain in place)**

2. **Support a minimum unit holding in the Fishery at some lower level, based on allowing greater freedom while also minimizing risks of a compliance cost blow out.**

3. **Remove the requirement for a minimum unit holding in the plan, thus allowing fishers to participate in the rock lobster Fishery at any unit holding level (down to one unit).**

All stakeholders are encouraged to consider the information provided in this document and provide comment on the three options presented. The closing date for submissions in relation to this matter will be **Friday 1 July 2005**. Submissions received during the public consultation period will be used to develop a report that will be carefully considered as part of the consultative process in determining the best outcome of the proposed minimum unit holding requirement for the Fishery. RLIAC will provide advice to the Minister for consideration in advance of the 2006 deadline.

INTRODUCTION

The current 63 minimum unit holding rule has recently been examined in the context of a National Competition Policy (NCP) review conducted by the National Competition Council (NCC); the NCC recommended that the minimum unit holding rule be removed. The WA Government responded to the NCC and indicated that the minimum unit holding would remain at 63 units until the end of 2006. A review of the minimum holding rule therefore needs to be undertaken in 2005 to provide the Minister with advice, so that any changes can be implemented prior to the NCC deadline of the end of 2006.

Basis for the current 63 minimum unit holding requirement

When a minimum holding was initially implemented in the Fishery it was at a level of 63 **pots**. However, with the 18% reduction in pot usage in the 1993/94 season and the introduction of unitisation in 1997, the minimum holding effectively became 63 **units**. The outcome of the introduction of unitisation was: the 63 pots that had previously been the minimum pot holding prior to the 18% reduction were converted into 63 **units**, which related to 52 **pots** at a unit value of 0.82.

The 63 unit / 52 pot outcome was generally considered to be the acceptable minimum level of gear entitlement that was required to be held by an operator to remain economically viable in the Fishery. By being economically viable, such an operator would not be considered as a risk to compliance and/or the sustainability of the resource. This would in turn keep the compliance costs at a minimum. The underpinning concept was that a certain minimum unit holding would maintain both the economic viability and compliance costs of the fleet, although the actual gear usage permitted was something of a chance outcome related to the previous minimum **pot** holding at the 18% pot usage reduction in 1993/94.

Relationship between unit value and unit holding

It is important to understand that the minimum unit holding itself does not ensure the economic viability of an operation. Rather it is the unit value, in combination with the minimum unit holding that determines the amount of gear (pots) that can be used by an operator.

Based on the current (2004/05 fishing season) unit value of 0.82 and the minimum unit holding requirement of 63 units, the minimum amount of gear (pots) that an operator can use is 52. It is important to be mindful of the relationship between unit value and minimum unit holding when considering the options presented in this paper to ensure that the number of **pots** used does not fall below an economically viable level.

Table 1 illustrates the impact of unit value on the number of pots that would be permitted to be used by an operator based on the current minimum unit holding (63 units). Thus, a unit value of 0.80 would allow the operator to use 50 pots and could be considered a viable operation (see later analysis). However, a unit value of 0.50 only allows the operator to use 32 pots and would most likely be considered an unviable operation.

Table 1: Impact of unit value on the number of pots that can be used based on the current 63 minimum unit holding.

UNIT VALUE	MINIMUM UNIT HOLDING	NUMBER OF POTS
1.00	**63**	63
0.90	**63**	57
0.82	**63**	52
0.80	**63**	50
0.70	**63**	44
0.60	**63**	38
0.50	**63**	32

Summary of National Competition Policy review

The NCP review, which was finalised in 2000, recommended that the minimum unit holding be removed for the 2000/01 fishing season and all subsequent seasons thereafter. In November 2002, after further deliberations and Government support, the Department of Fisheries released its NCP implementation plan. This plan stated that the minimum unit holding of 63 should remain in place until at least the end of 2006 while it was reviewed. The Government has since instructed the Minister for Fisheries to review the minimum unit holding requirement.

Current situation

The Minister for Fisheries has instructed RLIAC and the Department of Fisheries to review and provide advice on the issue prior to the 2006 deadline, as a number of operators have indicated to the Department that they would like to be able to drop below the current 63 minimum unit holding requirement. This would allow these operators the opportunity to become more diversified in their operations. These operators have argued that, despite the fact that their rock lobster operations would be based on a lesser number of units, they would not be a compliance risk because they would have other sources of income from their diversified fishing operations, or complementary businesses such as fishing and diving charters.

Minimum holdings in other rock lobster fisheries

Other Australasian rock lobster fisheries continue to maintain a minimum holding of some sort, be it pots or quota. A review of minimum holdings in other Australasian rock lobster fisheries follows.

Tasmanian Rock Lobster Fishery

The Tasmanian Rock Lobster Fishery is primarily managed under a quota management regime (output controls), but still has a minimum pot holding of five pots attached to a fishing licence, with no maximum holding specified. The concept of maintaining the minimum pot holding was part of a package of measures designed to discourage a flood of investors buying up licences.

The minimum holding of five pots was derived from a compromise between allowing new entrants to enter the Fishery at an affordable level that would still allow the operation to be economically viable, and having to make a

substantial investment to be part of the Fishery. The Tasmanian rock lobster commercial fishing industry has recently been discussing the '*pros'* and '*cons'* of reducing the minimum pot holding from five to one to assist new fishers into the Fishery. There is widespread support from industry for this rule amendment.

Victorian Rock Lobster Fishery

The Victorian Rock Lobster Fishery is primarily managed under a quota management regime (output controls) but still maintains some input controls such as restricting the overall capacity (total number of quota units and pots) allowed in the Fishery. The commercial Fishery is divided into two zones, Western and Eastern Zones. The Victorian Rock Lobster Fishery has recently reviewed the minimum and maximum pot holdings of the Fishery against the recent NCP review of the Victorian *Fisheries Act 1995*. The maximum number of pots for each zone will be removed, as it is an unnecessary restriction, however, the minimum quota unit and pot holdings will remain for each zone.

The general rule will be that any person may hold quota units without any pots, but to actually operate in the Fishery, a fisher must abide by a minimum pot and quota unit holding. It is important to note that the pot and quota unit holdings are separate and freely tradable within the Fishery. To operate in the western zone in 2005/06, an operator requires a minimum pot holding of 20 and a minimum quota unit holding of 10 (112.50 kilograms per quota unit). To operate in the eastern zone in 2005/06, the fisher requires a minimum holding of 15 pots while also holding a minimum of 5 quota units (60 kilograms per quota unit). The rational behind the minimum holdings is that it will help to reduce compliance costs as this cost is directly linked to the number of active licenses in the Fishery.

South Australian Rock Lobster Fishery

The South Australian Rock Lobster Fishery is also split into two zones, northern and southern. Both zones are now managed primarily under a quota management regime (output controls).

Both zones currently maintain a maximum and minimum pot holding. The southern zone has a maximum holding of 100 pots and a minimum holding of 40 pots, while the northern zone has a maximum holding of 70 pots and a minimum holding of 25 pots.

New Zealand Rock Lobster Fishery

The New Zealand Rock Lobster Fishery is managed under a quota management regime (output controls). The management arrangements for the Fishery do not include any minimum or maximum holdings on quota or pots.

RLIAC and the Department's position

Both RLIAC and the Department support a minimum unit holding for the Western Rock Lobster Fishery, as it ensures that fishing operations remain economically viable and do not create a risk to compliance and therefore the sustainability of the rock lobster resource. As a result of operators in the Fishery being a low compliance risk, the cost associated with maintaining the level of compliance remains relatively stable. However, the minimum number of units required to achieve and maintain the current compliance level and costs was unknown and needed further investigation.

It should be noted that it is not well understood what impact changing the current 63 minimum unit holding requirement would have on the Fishery and local communities.

OPTIONS

There are many arguments 'for' and 'against' maintaining the current minimum unit holding of 63 for the West Coast Rock Lobster Fishery (WCRLF). RLIAC has provided you, the stakeholder, with three options for your consideration and comment. RLIAC will abstain from formalising its position until you have had the opportunity to consider the options and provide comment. However, RLIAC will provide its formal position in advance of the 2006 deadline to the Minister. The options included;

1. **Maintain status quo (i.e., 63 minimum unit holding requirements remain in place)**

The option of simply maintaining the status quo for no reason other than it is the status quo, would not meet the outcomes of the NCP review nor the Department's commitments to the NCP review. The barrier to new entrants would remain and therefore the anti-competitive nature of the rule would remain. However, it should be noted that a review outcome that explicitly supported a minimum holding of 63 units (rather than just maintain 63 units for no other reason than status quo) would be a proper outcome of the review process.

2. **Support a minimum unit holding in the Fishery at some lower level based on allowing greater freedom while also minimizing risks of a compliance cost blow out.**

This option investigates the implications of reducing the minimum holding to a level that allows new entrants into the Fishery at a level that reduces the anti-competitive effects of the rule. Potentially this option would still maintain a minimum holding level that was both economically viable and compliance cost-friendly, as well as meeting the NCP review recommendations within the context of a sustainability and 'public good' argument.

3. **Remove the requirement for a minimum unit holding in the plan, thus allowing fishers to participate in the rock lobster Fishery at any unit holding level (down to one).**

While this option would completely satisfy the NCP review recommendations, it does not address the possible implications of removing the minimum holding on the economics and sustainability of the Fishery.

By removing the minimum holding requirement from the Fishery, all anti-competitiveness of the rule is removed and the barrier to new entrants becomes non-existent. However, currently there is no understanding of what the implications of omitting the minimum holding may be on the economics of the Fishery (especially compliance costs) and its possible impacts on sustainability.

CONSULTATION

Stakeholders attending the 2004 coastal tour were provided with a presentation on the status of the 63 minimum unit holding requirement in the West Coast Rock Lobster Fishery. This presentation provided stakeholders with several options for their consideration and comment.

Stakeholders at all three coastal tour meetings accepted that the three options presented were sufficient to scope the issue. A summary of the comments from each of the three tour venues included the following;

Fremantle:

- Issues were raised regarding charter operators claiming tax exemptions for fuel and other operational costs; and
- While there were mixed views whether to maintain the current holding or reduce it to some lower level, it was clear that a minimum unit holding requirement at some level was needed for the Fishery.

Geraldton:

- It was agreed that the current minimum unit holding was in fact anticompetitive and prevented new entrants entering the Fishery due to significant start up costs;
- It was agreed that the Fishery required a minimum unit holding of some level; and
- A motion stating that the current 63 minimum unit holding requirement be reduced to a 20–25 minimum unit holding was supported by a majority of those attending the meeting.

Jurien:

- There were mixed views expressed regarding the three options, however, options 1 and 2 were more favoured over option 3;
- Issues raised included:

- land management concerns on the Abrolhos Islands if option 2 or 3 supported;
- a reduced minimum unit holding would not be economically viable; and
- if a reduced minimum (option 2) were supported then further investigation would be essential to obtaining the appropriate level.

- At this meeting, there was a consensus that the current arrangements should remain in place until further investigations are conducted.

It was made quite clear by stakeholders at all three RLIAC coastal tour venues, that the Fishery did require a minimum unit holding of some sort. However, there were divergent opinions whether or not the minimum unit holding should be reduced from its current standing of 63 units, and if reduced, what an appropriate new minimum unit holding should be.

In order to answer these questions, RLIAC and the Department have conducted an investigation into what a new minimum unit holding requirement could be for the Fishery. This investigation involved a detailed cost analysis to be performed on various unit holding scenarios.

MINIMUM UNIT HOLDING INVESTIGATION

As it is not well understood what impact changing the 63 minimum unit holding requirement could have on the WCRLF and local communities, it was important to conduct a detailed investigation. The objective of the investigation was to provide more detailed information concerning the relative impacts on not only the resource, but also the economic implications of such a change.

This investigation looked at what minimum unit holding was required by individual operators to remain economically viable (i.e., maintain an annual positive earning) in the Fishery. The view taken was that an operator who was economically viable would not pose a significant risk to compliance and therefore the sustainability of the resource. It is important to note that the economic analysis performed in this paper refers primarily to the number of pots that an operator can actually use in the Fishery, not the number of units. However, the issue of the relationship between pots and units is also considered.

COST ANALYSIS

A major component of this investigation involved a cost analysis of all the various minimum unit holding scenarios being considered. The cost analysis performed to investigate the minimum unit holding requirement for the Fishery involved the use of a detailed database, which consisted of a number of different expense variables that were based on the 2004/05 catch predictions. The expenses detailed in the database were derived from the average costings from a number of ‘real’ fishing operations from all three zones, A, B and C.

A range of different scenarios was contemplated. These consisted of varying the number of pots used (range from 5–52 pots), and beach price paid (range from $12.00/kg – $30.00/kg).

The starting point for the pot holding range that was analysed, was chosen to be five pots, as this is one pot more than a pair of recreational fishers can currently legally set from one vessel. The number of pots was increased in increments of five pots in each scenario until reaching 52 pots. The investigation stopped at 52 pots, as this is the usable number of pots permitted by the current minimum unit holding, at the current unit value of 0.82. It is important to understand that the unit value used throughout this paper is 0.82, and each cost analysis presented relates to the number of usable **pots** arising from applying the unit value of 0.82 to the unit holding (i.e., a recommended minimum pot holding of 40 in this paper, would equate to a minimum holding of 49 **units** once the current unit value of 0.82 was applied).

The beach price range was chosen to reflect two potential extremes within the Fishery. The low beach price of just $12.00/kg was chosen to be the starting point for the beach price scenarios as it was considered to be the worst-case scenario. At the other end of the spectrum, the high beach price was set at $30.00/kg, as this is considered to be a very strong and healthy beach price.

A number of other input/operating costs were varied according to the number of units used. These other cost variables included;

- Bait;
- Fuel and oils;
- Insurance; and
- Repairs and maintenance.

It is important to note that these costings are based on ‘Mr/s Average’ in the Fishery, and the annual earnings for the operation do not include any outgoings for repayments of loans (house, business or personal) or living expenses. However, the annual earnings do take into consideration expenses such as depreciation of gear and vessels, insurance and licensing fees.

As a baseline, it was considered that the appropriate minimum unit holding level should be able to provide the operator with positive annual earnings across the range of beach prices paid ($12.00/kg – $30.00/kg), as well as providing a 5% return on the investment by the fisher.

Furthermore, it was considered that the annual positive earnings required by an operator (before any outgoings for repayments of loans or living expenses) was $45,000. This amount was considered sufficient to provide an income to sustain a basic standard of living, and not create a risk to compliance or the sustainability of the resource.

Outcomes of cost analyses

The outcomes of the cost analyses were differentiated between Zone C and zones A/B. The reason for conducting the cost analyses in this manner was due to the fact that the operating costs and unit prices associated with both the southern and northern zones of the Fishery differed from one another.

When considering the following results, it is important to remember that the following results are based on 'Mr/s Average' so that outcomes could be hypothesised.

The 'Mr/s Average' assumptions included:

- The efficiency of each pot remained constant across all levels of unit holdings;
- For all analyses performed, no costs were associated to the operation for employee's salary or super, as it was considered that an operation consisting of a minimum of 63 **units** or 52 **pots**, would not require extra person power. It was therefore considered that all scenarios investigated, were '**single person'** operations;
- That the operation fished for the entire rock lobster fishing season and caught the predicted catch for the 2004/05 season (Zone C – 196 kg/pot and Zones A/B – 171 kg/pot);
- That beach price was fixed for the entire season;
- Investment return was fixed at 5% for all scenarios;
- The annual earnings required by fishers to continue to operate within the Fishery, ensuring economic viability of the operation, and therefore not be a threat to either compliance and / or the sustainability of the resource was $45,000 per annum; and
- Unit value was set at current 0.82.

COST ANALYSIS OF ZONE C

From the investigation and the cost analyses performed, it was demonstrated that a Zone C operator could make a positive annual earning of $765 utilising a minimum five pots (equivalent to a minimum unit holding of six units at the unit value of 0.82) and at a beach price of $25/kg (Figure 1 and Table 2). Further analyses determined that the minimum **pot** holding requirement for a Zone C operator to generate positive annual earnings (i.e., greater than zero) for the 2004/05 fishing season, across the whole beach price range ($12.00/kg – $30.00/kg), without any additional supplemented income was 45 **pots** at a unit value of 0.82, which relates to 55 **units** (Figure 1).

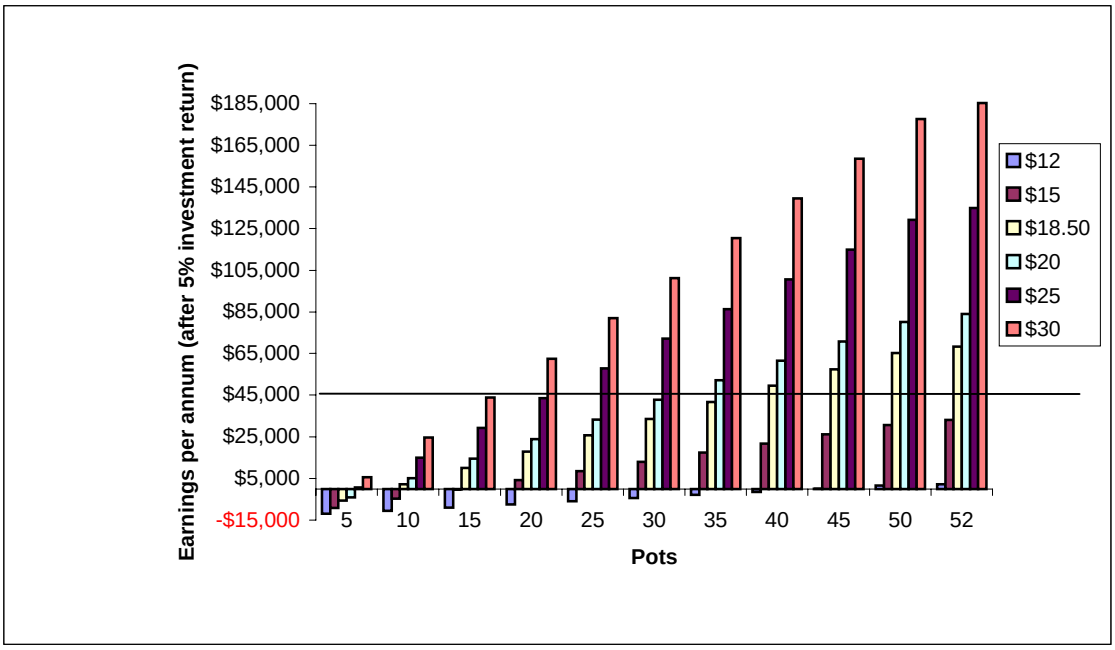

Figure 1: Beach price and annual earnings (after 5% investment return) achieved at a level of minimum pot usage for Zone C of the West Coast Rock Lobster Fishery. The line at $45,000 denotes the minimum positive annual earning point assigned to each of the scenarios.

Figure 1 illustrates the relationship between the numbers of pots fished; beach price paid and the earnings per annum for an operator in Zone C of the Fishery. It shows that as the number of pots used by an operator increases, the earnings per annum also correspondingly increase. This relationship was also demonstrated for beach price. As beach price increased, the earnings per annum also increased.

Table 2: Zone C annual earnings (after 5% investment return) for each of the scenarios considered

	Beach Price ($) per kilogram					
No. of Pots	**12**	**15**	**18.50**	**20**	**25**	**30**
5	-$11,987	-$9,079	-$5,631	-$4,132	$765	$5,612
10	-$10,474	-$4,658	$2,238	$5,236	$15,030	$24,724
15	-$8,961	-$231	$10,107	$14,604	$29,295	$43,836
16	-$8,659	$887	$11,681	$16,478	$32,148	$47,659
20	-$7,449	$4,184	$17,976	$23,972	$43,560	$62,449
25	-$5,936	$8,605	$25,845	$33,340	$57,826	$82,061
30	-$4,423	$13,026	$33,714	$42,709	$72,091	$101,173
35	-$2,910	$17,447	$41,583	$52,077	$86,356	$120,285
38	-$2,002	$20,670	$46,304	$57,697	$94,915	$131,752
40	-$1,397	$21,869	$49,452	$61,445	$100,621	$139,397
45	$116	$26,290	$57,321	$70,813	$114,886	$158,509
50	$1,629	$30,711	$65,190	$80,181	$129,151	$177,621
52	$2,234	$33,259	$68,337	$83,928	$134,857	$185,266

Note: Shaded area denotes the number of pots and beach price required to achieve at least the positive annual earning point set at $45,000.

Table 2 shows in detail the annual earnings for a 'Mr/s Average' fisher in Zone C.

While Figure 1 shows that the number of pots required to achieve positive earnings per annum across the range of beach prices ($12.00/kg – $30.00/kg) was 45 pots, a Zone C operator using 45 pots at $12.00/kg beach price would only have positive earnings of $116 (Table 2).

Table 2 further demonstrates that the positive annual earning point assigned to each of the scenarios ($45,000 per annum), was not achieved until the beach price was $30.00 /kg and the number of pots reached 16 (a minimum unit holding of 20 at a unit value of 0.82). The positive annual earning of $45,000 at a beach price of $18.50/kg was only achieved when the number of pots reached 38. The positive annual earnings for 38 pots at $18.50/kg was $46,304 (Table 2).

The results of the cost analysis for the current minimum unit holding requirement of 63 units (52 pots at a unit value of 0.82) for the Fishery shows that at a beach price of $18.50/kg, Zone C operators would make a positive earning of $68,337 per annum. This amount is more than $23,000 above the positive annual earning point set at $45,000. As beach price increased for 52 pots, the positive earnings per annum also increased, reaching a maximum of $185,266 at $30.00/kg (Figure 1 and Table 2).

The current minimum usable pot holding requirement (52) for Zone C of the Fishery, more than meets the requirements of what an operator for the 2004/05 fishing season needs to remain economically viable and therefore not a compliance risk. However, it should be noted that if the beach price fell below $16.00/kg, then the Zone C operator using 52 pots, may become a risk to compliance and the sustainability of the resource.

COST ANALYSIS OF ZONES A/B

No level of pot usage achieved a positive annual earning for the beach price of $12.00/kg (Figure 2). Indeed, it was not until the beach price reached $30.00 /kg for the operator of five pots, that the operator made a positive annual earning ($2,686 per annum) (Table 3).

The minimum pot usage requirement for a zones A/B operator to maintain annual positive earnings of $45,000 for the 2004/05 fishing season, at a beach price of $18.50/kg, without any additional supplemented income was 47 **pots** at a unit value of 0.82, which relates to 57 **units** (Table 3).

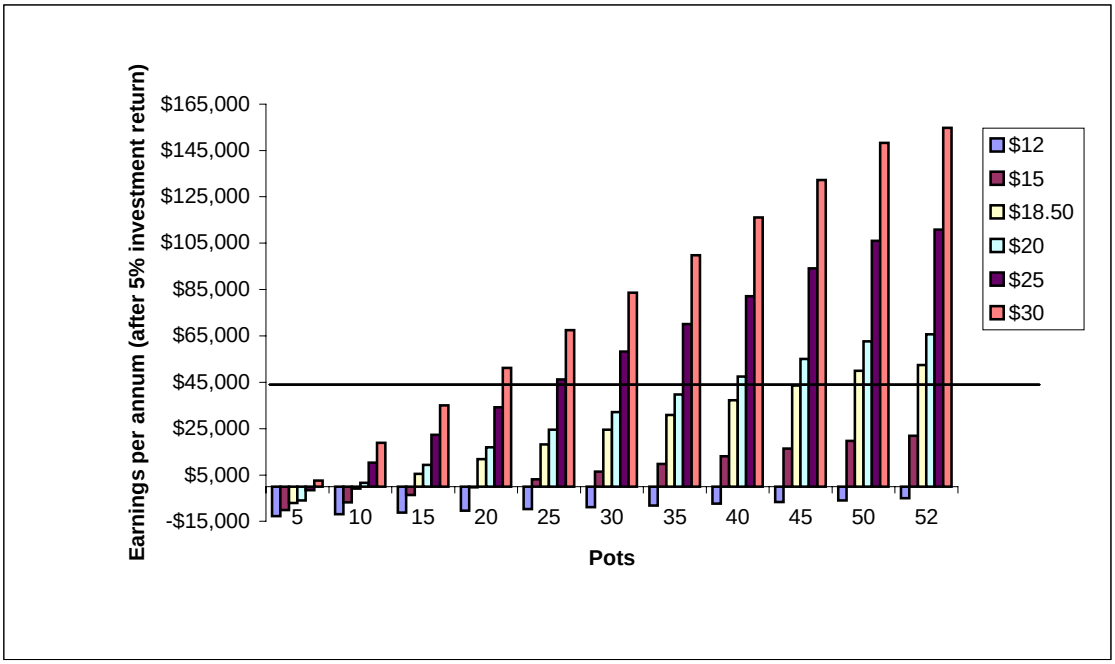

Figure 2: Beach price and annual earnings (after 5% investment return) achieved at a level of minimum pot usage for Zones A/B of the West Coast Rock Lobster Fishery. The line at $45,000 denotes the minimum positive annual earning point assigned to each of the scenarios.

Figure 2 illustrates the relationship between the numbers of pots used; beach price paid and the earnings per annum for the operator in zones A/B of the Fishery. It shows that as the number of pots used by an operator increases, the earnings per annum also correspondingly increase. This relationship was also demonstrated for beach price. As beach price increased, the earnings per annum also increased.

Table 3: Zones A/B annual earnings (after 5% investment return) for each of the scenarios considered

	Beach Price ($) per kilogram					
No. of Pots	**12**	**15**	**18.50**	**20**	**25**	**30**
5	-$12,744	-$10,170	-$7,160	-$5,884	-$1,549	$2,686
10	-$11,981	-$6,839	-$820	$1,731	$10,402	$18,872
15	-$11,222	-$3,509	$5,520	$9,347	$22,352	$35,058
19	-$10,386	-$559	$10,592	$15,439	$31,913	$48,007
20	-$10,462	-$178	$11,860	$16,963	$34,303	$51,244
25	-$9,703	$3,152	$18,200	$24,578	$46,254	$67,430
30	-$8,944	$6,483	$24,541	$32,194	$58,205	$83,616
35	-$8,184	$9,813	$30,881	$39,809	$70,156	$99,802
40	-$7,425	$13,144	$37,221	$47,425	$82,106	$115,988
45	-$6,666	$16,474	$43,561	$55,041	$94,057	$132,174
47	-$5,798	$18,512	$46,097	$59,027	$98,838	$138,648
50	-$5,906	$19,805	$49,901	$62,656	$106,008	$148,360
52	-$4,978	$21,917	$52,437	$65,703	$110,788	$154,834

Note: Shaded area denotes the number of pots and beach price required to achieve at least the positive annual earning point set at $45,000.

Table 3 shows in detail the annual earnings for a 'Mr/s Average' fisher in Zone A/B.

Table 3 further demonstrates that the positive annual earnings point assigned to each of the scenarios ($45,000 per annum), was not reached until the number of pots reached 19 (a minimum unit holding of 23 at a unit value 0.82) and was coupled with a strong beach price of $30.00/kg. The positive annual earning of $45,000 at a beach price of $18.50/kg was only achieved when the number of **pots** reached 47 (a minimum **unit** holding of 57). The positive annual earnings for 47 pots at $18.50/kg was $46,097 (Table 3).

The results of the cost analysis for the current minimum unit requirement of 63 units (52 pots at a unit value of 0.82) for zones A/B of the Fishery shows that at a beach price of $18.50/kg, the zones A/B operator made an annual positive earning of $52,437 per annum (Figure 2 and Table 3). This amount is more than $7,400 above the positive annual earning point set at $45,000 per annum.

In order for the current 52 usable pot holding requirement for the Fishery to ensure zones A/B operators remain economically viable and do not pose any risk to compliance and/or the sustainability of the resource, a beach price of approximately $18.00/kg is required. However, if the beach price fell below this amount then the zones A/B operator with only 52 usable pots would become a risk to both compliance and the sustainability of the resource.

VIEWS ON A REDUCED MINIMUM UNIT HOLDING REQUIREMENT

Stakeholders who support a reduced minimum unit holding are of the view that those operators choosing to operate at a reduced minimum unit holding would be diversified fishing operations with supplemented incomes. Supplemented incomes may come from a variety of other businesses such as fishing and diving charters, eco-tourism charters, other commercial fishing operations, and/or support from other external means such as a partner or family member. It is important to note that the Department will not be able to require those operators with any new minimum unit holding in the rock lobster Fishery to have a supplemental income.

The analyses presented in this paper have shown in order for operators in each zone (A, B and C) to achieve and maintain a positive annual earning (i.e., greater than zero) a minimum holding of six units (five pots at a unit value of 0.82)(Figure 1 and 2) is required. Zone C operators receiving a beach price of $25.00/kg and using five pots achieved an annual positive earning of $765 (Table 2). Zones A/B operators using five pots, made $2,686 at a beach price of $30.00/kg (Table 3).

The Department believes that the minimum unit holding should be based on the minimum number of units that would maintain the positive annual earning point set at $45,000 at a beach price of $18.50/kg. This would provide a degree of certainty that an operation would maintain its economic viability over a reasonable period of time, although there is only a small margin at this level of pot usage to absorb increases in operating costs and/or a fall in price. Therefore the Department's view is that the minimum unit holding requirement for zones A/B and Zone C of the WCRLF could be reduced to 57 units (47 pots at the unit value of 0.82) and 46 units (38 pots at the unit value of 0.82) respectively.

Operators in zones A or B using the minimum unit holding of 57 would achieve the annual positive earning point set at $45,000 at a beach price of $18.50/kg, where they would make $46,097 per annum (Table 3). A Zone C operator using 46 units would achieve the annual positive earning point set at $45,000 at a beach price of $18.50/kg and achieve an annual positive earning of $46,304 (Table 2).

However, at a beach price of $15.00/kg a Zone C operator using the minimum unit holding of 46 (38 pots at a unit value of 0.82) would only make $20,670 per annum (Table 2). Operators in zones A/B using the minimum unit holding of 57 (47 pots at a unit value of 0.82) would only make an annual positive earning of $18,512 (Table 3).

It is important to note that if the beach price only achieved $15.00/kg, operators in all three zones would require to hold above the current minimum unit holding requirement of 63 units or 52 pots in order to achieve the annual positive earning point set at $45,000.

MINIMUM POT USAGE AND WITHIN SEASON CHANGES IN UNIT VALUES

To ensure that operators holding the minimum number of units for each zone remain economically viable if the unit value changes, the Department believes that the minimum unit holding should be expressed in a way which relates more closely to a minimum gear usage (i.e., the minimum gear usage would become the critical operational control). Thus, for an operator in zones A/B the minimum pot usage could be set at 47, while for an operator in Zone C the minimum could be 38 pots, irrespective of unit value. The analyses presented in this paper have demonstrated that these levels of pot holdings would provide a degree of certainty that operators would remain economically viable across a range of beach prices in all three zones of the Fishery.

It is crucial to keep in mind that unit values are not static and may vary throughout a season (indeed the current proposals for a new management 'package' include some "within season" unit value changes). If there were a reduction in unit value during the season, it could impact on an operator's earning ability (economical viability), although the degree of impact would be dependent on each individual operation. There are a number of different management arrangements that could be implemented to accommodate any fluctuations in ('within season') unit value, reducing the degree of impact on compliance risk and the resource from those operators choosing to operate at the minimum level. Further information concerning the possible implementation of any new management arrangements will be presented to industry once a preferred direction has been made regarding the options presented in this consultation document.

ADDITIONAL POSSIBILITY THAT ARISES WITH MOVING TO A MINIMUM GEAR USAGE RULE

Moving the Fishery to a minimum gear usage rule opens up an interesting possibility with regard to the whole NCP review and the need for a "Unit Register". If the Fishery moved to a minimum gear usage rule then there wouldn't appear to be a reason why licences with as little as one unit of entitlement couldn't exist – they just

couldn't be operated. This would allow people to acquire licences with low levels of unit holding (i.e., reduce the 'competitive bar' to investing in the Fishery) while allowing these people all the rights and privileges of Managed Fishery Licence holders – except the right to operate a boat in the Fishery. This arrangement would parallel the circumstances of the minimum operating holdings required in the Victorian Rock Lobster Fishery.

Holders of rock lobster Managed Fishing Licenses with unit holdings which did not provide for the minimum gear usage requirement could also temporarily transfer units to other licences (i.e., lease their gear) as well as gradually accumulate permanent units of entitlement or lease-in units from other licences if they wished to achieve the minimum gear usage level and operate in the Fishery. They would also be fully recognised on the licensing register and become a formal component of the Fishery's consultative processes.

COMPLIANCE COST AND RISK

The overall compliance cost for the western rock lobster Fishery for the 2004/05 season is approximately $4.8 million. This currently equates to $70 per unit. However, the number of boats operating in the Fishery impacts on the level of compliance costs for each fishing season.

Currently if all operators only held the minimum unit holding of 63 units, which relates to 52 pots (at a unit value of 0.82), this could hypothetically relate to 1093 rock lobster boats. However, if the minimum holding were to be reduced to 57 and 46 units (47 and 38 pots for zones A/B, and Zone C respectively, at a unit value of 0.82) then this could hypothetically relate to 1356 rock lobster boats in the three zones. Such an increase in boat numbers would ultimately demand an increase in the level of compliance and enforcement hours, thus resulting in a significant increase in the cost of compliance. This cost would ultimately be paid for by industry through cost recovery mechanisms, resulting in a corresponding increase in the cost of managing the Fishery.

It is important to understand that the risk to compliance from operators is related to the number of boats operating in the Fishery, since each boat in the Fishery represents an over-potting, incorrect gear, and consignment of totally protected fish (TPF) risk.

There are two main compliance activities that are likely to increase if there is a significant increase in the number of vessels operating with a small number of pots. They are:

1. **The requirement to undertake pot counts to ensure the correct entitlements are being used**

   Under current compliance strategies approximately 10–15% of all licensed rock lobster vessels are subject to a pot check/pot count during a season by Fisheries and Marine Officers. Based on current numbers of licenses (545) that ranges between 55–82 boats per year. If the number of vessels were to significantly increase then there may be a requirement to increase the time spent on the water by officers to ensure confidence in the integrity of the plan and to maintain

deterrent levels. Under the current compliance regime the time required to complete a compliance check for one vessel is not closely related to the number of pots authorised to be used (although this may not be the case if a Vessel Monitoring System (VMS) is adopted in the Fishery). Thus, as the number of vessels required to be checked increases, then the overall time to complete the compliance checks will also increase. However, if the increase is small, efficiency gains through the introduction of VMS may be sufficient to keep costs within current levels. It may also be possible to meet any gains in numbers by re-prioritising other activities, although this would clearly increase the risk in those areas that were affected by reduced activity as a result of any re-prioritisation. Nevertheless there is a limit to these cost absorbing or offsetting strategies and in the absence of VMS or in the face of a significant increase in boat numbers or a decision not to increase risk in other areas, costs of compliance will increase as the fleet size increases.

2. **An increase in factory inspections to ensure that TPF are not being consigned**

   It is almost certain that operators, due to economics of the Fishery, utilising the minimum pot holding requirement will work shallow and inshore waters for most of the season. This could result in an increase in the number of small rock lobster being consigned and may require some changes to factory/catch inspection strategies. Currently Fisheries and Marine Officers check 3–5% of the landed catch each season. If there was an increase in the number of vessels operating at the minimum pot holding level, it may increase the catch during those periods where vessels are operating inshore, but decrease the catch during those periods where the larger catches are being taken offshore. It may therefore be possible to rearrange compliance levels and resources across the season to meet these changes. It may also be a requirement to increase covert surveillance if some new and marginal operators are suspected of illegally dealing in TPF.

While the cost analyses have provided an insight into the minimum number of units required for an operator to maintain a positive annual earning for all three zones, this does not, however, necessarily denote that the operator will not be a risk to compliance or the resource. However, if the operator diversified the operation to include other means of supplemented incomes through other businesses, this would significantly reduce the operations level of risk to both compliance and the sustainability of the resource.

FLEET DYNAMICS

When considering a possible reduction in the minimum unit holding requirement for the rock lobster Fishery, it is extremely important to be mindful of the possible impacts on the fleet dynamics associated with such a change.

Currently the commercial fishing fleet in the rock lobster Fishery consists of a mix of vessels targeting both the shallow and deepwater environments, with small vessels tending to remain near shore in shallower waters, while the larger vessels venture out into the deepwater. This has effectively spread the effort of the Fishery across all habitats and environmental ranges up and down the west coast and out into deepwater.

One of the possible impacts associated with a reduction in the minimum unit holding requirement for the rock lobster Fishery on fleet dynamics is that a minimum unit holder's income would be reduce and operators utilising only the minimum number of units to fish would be likely to scale down their operational costs (fuel, boat size, bait, range from port) to asset their economically viability.

This could see the introduction of an increased number of smaller vessels operating close to shore in very shallow water on a full time basis, resulting in increased effort on the shallow water rock lobster stocks. Such a change in fleet dynamics could impact on the balance of the current level of resource sharing between the commercial and the recreational fishing sectors.

It should be noted that, at this stage, the socio-economic impact of such a change in fleet dynamics on small communities along the Western Australian coastline is relatively unknown.

Process – How to have your say

It is important to note that RLIAC will provide its formalised recommendation in advance of the 2006 deadline to the Minister.

All stakeholders are encouraged to consider the above information and provide comment on the three options. Comments on the three options should be addressed as follows, and should be received no later than close of business **Friday 1 July 2005**;

Mr Peter Trott
Commercial Fisheries Management Officer (Rock Lobster)
Department of Fisheries
3rd Floor, The Atrium
168 St George's Terrace
PERTH WA 6000

Rock Lobster Industry Advisory Committee

Our Ref: Mac 18

STAKEHOLDERS CONSIDERATION AND COMMENT SOUGHT ON THE INVESTIGATION AND COST ANALYSIS OF THE MINIMUM UNIT HOLDING REQUIREMENT FOR THE WEST COAST ROCK LOBSTER FISHERY

A number of rock lobster licence holders have approached both the Rock Lobster Industry Advisory Committee (RLIAC) and the Department of Fisheries, regarding the minimum unit holding requirement of the *West Coast Rock Lobster Management Plan 1993* and its relevance in today's fishery.

The current 63 minimum unit holding rule has recently been examined in the context of a National Competition Policy review, where it was recommended that the minimum unit holding rule be removed. The WA Government's response was that the minimum unit holding rule would remain at 63 units until the end of 2006. A review of the minimum holding rule therefore needs to be undertaken in 2005 to provide the Minister with advice, so that any changes can be implemented prior to the deadline of the end of 2006.

The Minister has requested that the RLIAC provide him with advice on the issue, as a number of operators have indicated to the Department that they would like the opportunity to drop below the current 63 minimum unit holding and operate more diversified businesses.

The enclosed document '*Investigation and Economic Analysis of the Minimum Unit Holding Requirement – public consultation document May 2005*', provides you, the stakeholder, with detailed economic information regarding the minimum unit holding requirement for each zone of the fishery.

RLIAC has provided you with three options for consideration and comment. The options are:

1. **Maintain status quo (63 minimum unit holding rule remain in place)**

2. **Support a minimum unit holding in the fishery at some lower level, based on allowing greater freedom while also minimizing risks of a compliance cost blow out.**

3. **Remove the requirement for a minimum unit holding in the plan, thus allowing fishers to participate in the rock lobster fishery at any unit holding level (down to one unit).**

All stakeholders are encouraged to consider the enclosed information and provide comment on the three options presented. Comments should be addressed as follows, and should be received no later than **close of business Friday 1 July 2005**;

Mr Peter Trott
Commercial Fisheries Management Officer (Rock Lobster)
Department of Fisheries
3rd Floor, The Atrium
168 St George's Terrace
PERTH WA 6000

If you have any further enquires related to the options, or the consultative process, please do not hesitate to contact Mr Peter Trott, Commercial Fisheries Management Officer (Rock Lobster) on (08) 9482 7262.

I look forwarded to your participation in this important process for the rock lobster fishery.

Yours sincerely

Rhys Brown
RLIAC Executive Officer

30 May 2005